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Report of the Multi-year Expert Meeting on Commodities and Development on its tenth session

Held at the Palais des Nations, Geneva, 25 and 26 April 2018

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Introduction

1. The tenth session of the Multi-year Expert Meeting on Commodities and Development was held at the Palais des Nations in Geneva, Switzerland, on 25 and 26 April 2018.

I. Chair's summary

A. Opening plenary

2. In her opening statement, the Deputy Secretary-General of UNCTAD emphasized that commodity-dependent developing countries, in particular the least developed countries, faced challenges related to slow economic growth and low levels of development. She noted that commodity dependence made countries vulnerable to shocks and commodity price fluctuations, resulting in negative effects in areas from public revenue to small-producer incomes. It was therefore important to develop policies to diversify the economies and exports of commodity-dependent developing countries, which constituted 67 per cent of developing countries, in order to both increase the number of products exported and add value to traditional products moving up the value chain.

3. The Deputy Secretary-General noted that some horizontal policies that could help advance such objectives included increasing investment in education, infrastructure and the strengthening of institutions; implementing sustainable, solid and transparent fiscal policies; and instituting stabilizing monetary policies that contributed to development. In addition, targeted policies related to, among others, export promotion and competitiveness could contribute to the goals of diversification and development. Finally, the Deputy Secretary-General highlighted the importance of designing and implementing policies according to the specific needs of each country.

B. Recent developments, challenges and opportunities in commodity markets

(Agenda item 3)

4. During the first informal session, the secretariat and the panellists provided an overview of commodity market trends, including in agriculture. In January–December 2017, commodity prices had varied as follows: food and agricultural raw material prices had decreased by 6.2 per cent and 8.7 per cent, respectively; and mineral, ore and metal prices had increased by 10.6 per cent. Markets for grains such as wheat and maize were expected to remain stable in the 2017–2018 season. Extreme weather was expected to impact maize crops in the southern hemisphere, including in Argentina, Brazil and South Africa. In January–November 2017, coffee prices had dropped by 14.5 per cent for robusta and 12.7 per cent for arabica and strong price increases were unlikely to be seen in 2018 unless there were unfavourable weather conditions. Finally, the surplus of cocoa beans was expected to continue and price increases were therefore unlikely in the near future; significant production increases were expected in Côte d'Ivoire and Ghana.

5. During the ensuing discussion, one delegate noted that, despite mixed trends in 2017, aggregate agricultural prices had declined, negatively affecting the incomes of Governments and farmers in producing countries. Developed country policies, including with regard to support for agriculture, had been partly responsible and structural reforms were therefore required in developed markets to make them more open to developing country agricultural exports. Another delegate stated that the evolution of cocoa prices did not reflect market fundamentals and that a deeper analysis of the market structure was required, which would highlight the role of major players in the value chain and how value was distributed; the delegate suggested that, for example, Côte d'Ivoire might process more of its cocoa. One panellist noted that there was a need to undertake agricultural censuses

and surveys to provide a basis for better forecasts of cocoa production and that processing opportunities in producing countries might be uncompetitive since consumers were mostly located in the United States of America and in Europe. Logistical costs associated with supplying final products to consumer markets might be too high yet, as chocolate consumption increased in Africa, it would likely be more relevant to manufacture related products on the continent.

6. One delegate highlighted the many factors that led to low agricultural productivity, in particular in Africa and Western Asia, including natural conditions, the technologies used, crop management systems and subsidies or other domestic support measures. In addition, 80 per cent of food was produced by family-owned farms and, to increase yields, greater efficiency and input intensity were required. The secretariat noted in this regard that productivity could be enhanced through the use of quality seeds, irrigation, fertilizers and infrastructure; and that research suggested that, in Africa, the use of irrigation alone could increase yields substantially.

7. Another delegate highlighted the lack of coordination among producing countries to make commodity markets more stable. One panellist noted that some fluctuations in agricultural commodity markets were not predictable as they were due to climatic shocks and that putting in place effective risk management strategies could be a solution in this regard. Another panellist indicated that there was no one-size-fits-all solution and that, when producing country markets were integrated into world markets, events in domestic markets influenced world markets and buffer stocks could be useful in such contexts yet, when markets were isolated, there was a tendency for prices to spike due to shortages. Yet another panellist suggested that commodity price stabilization schemes, such as the International Coffee Agreement, had been used in the past, yet the current paradigm was that of free markets and that international commodity bodies could therefore only contribute to increased transparency through the dissemination of information.

8. One delegate noted that the fact that Africa and Latin America were strongly commodity dependent should be viewed positively, as the two regions supplied the world with important commodities, and there was a need, therefore, to address the issue of the lack of processing capacities in producing countries and the role of tariff escalation. The representative of one intergovernmental organization emphasized the inherent protection of processors in importing countries, for example with regard to coffee, as the quality requirements for roasted beans might prevent imports since developed countries had strong already-established brands that made it difficult for developing countries to compete in trade in manufactured goods.

9. Another delegate noted that, in Nigeria for example, booms and busts in the cocoa market had discouraged farmers from remaining in the cocoa sector, and considered the impact on cocoa of positive changes in chocolate consumption patterns in China. One panellist noted that China and the International Cocoa Organization were considering launching a consumption campaign such as the one initiated in Brazil with regard to coffee.

1. Minerals, ores and metals

10. During the second informal session, the first panellist presented related trends, with a focus on lithium, cobalt and nickel. In 2017, price increase for these commodities had been driven by strong demand spurred by strong global economic growth. Aluminium prices had fluctuated in response to uncertainty surrounding the introduction of tariffs by the United States and perceived supply shortages linked to trade limits on a leading producer in the Russian Federation. Prices of other metals such as iron ore and chrome had risen in line with increasing demand yet platinum, used in the manufacture of diesel catalysts, had fallen due to challenges faced by the diesel automobile industry with regard to pollutants in exhaust. In addition, the use of electric vehicles was changing the demand prospects for metals that played an important role in the automobile industry, such as by raising demand for lithium and thereby pushing up prices. In 2016–2017, lithium prices had risen by 40 per cent and had also raised demand for cobalt and nickel used in the manufacture of lithium ion batteries for electric vehicles. The panellist highlighted the example of incentives offered to automobile buyers in China to move towards electric

vehicles and reduce greenhouse gas emissions, which had increased the sales of such vehicles.

11. The second panellist noted that the increase in sales of electric vehicles was one of the principal drivers of the strong demand for lithium yet noted the potential challenges in meeting demand given the long lead time of 6–8 years for developing and ramping up production from salt lakes. Extraction from mineral deposits was simpler but had significantly higher costs than extraction from salt lakes. The panellist emphasized that global lithium reserves were concentrated in three countries, namely Argentina, Chile and the Plurinational State of Bolivia, and that reserves might appear to be abundant, but production might be insufficient in the short term to meet strong demand given the long lead times.

2. Energy

12. The third panellist presented current trends in the energy market and impacts on the energy mix, highlighting that global oil demand had grown by 2.1 per cent in 2017 and that production had reached a record level of 98 million barrels per day. Demand had been driven largely by China and India, accounting for over 50 per cent of the world total. In addition, the transport sector consumed about half of the global production of oil. The panellist noted that decarbonization of the energy mix required reductions in the use of fossil fuels and substitution with decarbonized energy sources such as renewable and nuclear sources and/or improved energy efficiency. The panellist highlighted different factors that influenced transitions between energy sources and noted that, given the success of electric vehicles, progress was expected in reducing emissions from trucks and maritime transport through the electrification of fleets and shipping lines.

13. The fourth panellist provided an overview of global energy consumption and production in 2015 and the different sources making up the global energy mix. Fossil fuels dominated, with 78.4 per cent of total energy consumption, followed by renewable sources at 19.3 per cent and nuclear power at 2.3 per cent. The panellist noted that continued reduction in the cost of renewable energy production was a key driver in the introduction of renewable sources into the energy mix. However, progress in the electricity sector, although starting from a low base, had not been matched in the transport and heating sectors, which together accounted for 80 per cent of global energy consumption. The panellist stated that bioenergy and renewable energy were the most relevant instruments for the decarbonization of end-use sectors such as transport, heating and industry. Energy efficiency measures were also needed to achieve further progress and efforts need to be made in end-use sectors to substantially reduce global carbon dioxide emissions and reach the target in the Paris Agreement under the United Nations Framework Convention on Climate Change. The panellist emphasized that energy efficiency and the use of renewable sources could provide over 90 per cent of the reduction required and that the latter offered an unprecedented opportunity for economic growth, job creation and safeguarding the environment. The energy transition needed to be accompanied by policies that supported the necessary transfer of skills between the energy and non-energy sectors.

14. During the ensuing discussion, one delegate noted that energy transition was important but costly and that a possible approach was to ensure that the transition was an opportunity for value addition, as for example under the ongoing renewable energy programme in Algeria, which aimed to reach, by 2030, 22 million MW, or approximately 27 per cent of the national energy mix, by focusing on solar photovoltaic and other renewable sources. In response to a query by another delegate with regard to the effect on demand for copper from the transition to electric vehicles, one panellist noted an electric vehicle had about 80 kg of copper wiring and that significant quantities of copper would therefore be needed to meet rising levels of production of electric vehicles. In addition, the panellist noted that if the global vehicle fleet became entirely electric, global electricity demand would increase by about 30 per cent, with supplies from different sources, and that demand for copper was therefore expected to increase given the ongoing transition to electric vehicles.

15. With regard to a query regarding the finite nature of global energy resources and their future availability, one panellist noted that this constraint was not applicable to renewable sources as they were not finite, yet there might be temporary supply shortages as demand for the materials used in electric vehicles continued to increase.

C. Diversification and value addition

(Agenda item 4)

16. In opening the third informal session, the secretariat introduced the note entitled "Diversification and value addition" (TD/B/C.I/MEM.2/42), which addressed key issues such as the importance of diversification, the effects of commodity price volatility on economic growth and development, the heterogeneity of price volatility across commodity groups, the classification of export commodity-dependent countries and policy measures to foster diversification and value addition. Concentration affected development through numerous channels, including sectoral volatility, and a key finding was that volatility was most pronounced in energy commodities, followed by minerals, ores and metals and by food, and that agricultural raw materials were the least volatile commodities. Two complementary types of policy recommendations were horizontal policies, such as capital accumulation and sound fiscal, monetary and exchange rate policies, and targeted policies, such as improved coordination and prudent competition policies.

1. Production and export diversification: Horizontal policies

17. The first panellist reviewed horizontal policies that supported economic and export diversification. Two key findings were that export concentration and development were negatively correlated and that the commodity curse might become a commodity blessing if rents were invested in the formation of human and physical capital, in technology and in better institutions and governance. The panellist highlighted the importance of the complementarity between horizontal and targeted policies for development. Among horizontal policies, examples of the relationship between the evolution of commodity prices and debt highlighted the importance of implementing a sustainable fiscal policy for development throughout the business cycle. Finally, the panellist noted that effective monetary policies and avoiding overvaluing exchange rates were also important in diversification efforts.

18. The second panellist focused on value addition in the renewable energy sector and the implications for diversification and economic development, including employment and gross domestic product projections for 2030 and 2050 in various countries and regions. Energy transition was projected to create millions of jobs and accelerate local economic development. Priority actions to facilitate such a transition, including in countries dependent on fossil fuels, included leveraging existing capacities in support of value chain development, designing labour market policies that responded to market needs and assessing skills needs and coordinating education and training policies with the needs of the private sector. With regard to queries regarding the projections, the panellist noted that they were not intended to serve as forecasts and did not take into account automation and digitalization.

19. The third panellist provided an overview of International Trade Centre support to developing countries in increasing and retaining value addition at the enterprise, sector and international market levels, through its programme on value added to trade, and cited case studies from the gum arabic sector in Chad, the coffee sector in Rwanda and the mango sector in Senegal. To generate value, firms needed to be competitive and to develop brands, marketing and customer services. Finally, the panellist noted that the digital economy provided new opportunities for small and medium-sized enterprises.

20. The fourth panellist provided an overview of the economy of Kazakhstan, including key natural resources, transportation infrastructure and membership in international economic organizations.

21. The fifth panellist detailed recent efforts to spur commodity export diversification in Argentina, in particular with regard to grains and by-products. The removal of export taxes on agricultural products had had a positive impact on the economy, in particular in rural communities. With regard to inquiries on the impacts of the elimination of export taxes on poverty and value addition, the panellist indicated that economic recovery had been stronger in rural areas, yet the removal of export taxes had benefited not only rural communities but also sectors such as agricultural machinery, agrochemicals, construction and cement.

22. During the ensuing discussion, one delegate stressed the importance of fostering value addition in commodity-dependent developing countries. Another delegate highlighted that insufficient skills remained a challenge in many developing countries and that the expansion of renewable sources of energy might not lead to job creation, as skills and technologies were mostly imported. One panellist noted that the skills shortage was global, although more acute in certain regions. With regard to South–South cooperation and economic growth in Africa, the secretariat noted that the Continental Free Trade Area could provide further opportunities for cooperation, and one panellist cited examples of such cooperation implemented in Africa through partners in China and India.

23. One delegate noted the difficult choices that had to be made nationally with regard to borrowing in domestic and foreign markets since, for example, borrowing in domestic credit markets might crowd out private sector borrowing. One panellist noted that Government authorities needed to weigh the advantages and disadvantages of borrowing in different markets and that the development of domestic debt markets might reduce private sector crowding out.

24. With regard to a query on specific lessons for landlocked developing countries and lessons that could be extrapolated from the eight non-commodity dependent least developed countries, the secretariat noted that the latter countries were not necessarily those that had managed to reduce commodity dependence. That is, they were not endowed with natural resources, yet were dependent on other non-commodity sectors, and their policies might not provide relevant lessons learned. Each country faced constraints and had opportunities, yet landlocked developing countries faced added difficulties, in particular in trade.

25. One delegate noted that some countries faced a dilemma in deciding between promoting sectors in which they had the required skills but not the raw materials and promoting sectors in which they had the raw materials but not the required skills. Finally, with regard to a query on whether accession to the World Trade Organization might limit the pursuit of local content policies, one panellist noted that accession provided recognition that the country was open to international trade and provided an opportunity to use the dispute settlement mechanism to address any trade-related disputes that might arise.

2. Production and export diversification: Targeted policies

26. The fourth informal session considered case studies and policies that could support value addition and diversification in commodity-dependent developing countries.

27. The first panellist detailed experiences from the cotton sector in Benin, which played a critical role in the national economy as it accounted for significant shares of gross domestic product and tax revenue. Key challenges included limited value addition and low productivity. The Government had recently initiated reforms to strengthen competitiveness and productivity and to stimulate local value addition, and the related policies included a stronger role for the private sector.

28. The second panellist detailed experiences from the cotton sector in Uzbekistan and stated that increasing productivity was a key aspect for the industry. In this regard, Uzbekistan had recently introduced machines for cotton picking and modernized its gins.

29. The third panellist addressed the different types of diversification and supporting policies. Diversification could be horizontal, involving new products and industries; vertical, involving upstream and downstream activities within existing sectors; and financial, involving the acquisition of productive assets. An example of both vertical and horizontal diversification could be seen in Malaysia, which had become a diversified and industrialized economy through a process supported by targeted policies, including tax

incentives and the strengthening of infrastructure. In addition, the horizontal diversification process in Chile had been supported by targeted policies, including research and development support, and Chile had successfully developed non-mining sectors, yet production linkages to the copper sector remained limited.

30. The fourth panellist highlighted the role of Africa in the global leather value chain. Africa accounted for a substantial share of global livestock, yet its share in the production of processed leather goods remained small, with limited value retention on the continent. The main challenges in achieving higher value addition in the leather sector in Africa involved low productivity and competitiveness. Concerted efforts by Governments, the private sector and academia were needed to address such challenges and support a move up the leather value chain for producers in Africa.

31. The fifth panellist noted that Africa accounted for roughly three quarters of global cocoa exports, but that the majority of value in the cocoa sector was created in importing countries. Several countries in Africa, in particular Côte d'Ivoire and Ghana, depended on cocoa, and smallholding farmers in these countries had been affected by the recent drop in cocoa prices. In future, it would be important to better coordinate sectoral polices, to avoid overproduction that affected the price of cocoa, and to design vertical and horizontal diversification strategies.

32. The sixth panellist presented a case study of the tea sector in Sri Lanka, which supported 2 million people. The Government had initiated policies that supported value creation and diversification in the sector, which involved working closely with the private sector to identify and address market failures, skills development, the adoption of international standards and the creation of a national brand. Diversification in the sector had taken place at the product level, through an increase of exports of green tea, and at the export country level. Key challenges included rising costs and delays in realizing sales proceeds in some export markets.

33. The seventh panellist highlighted trends in value addition in the global coffee market. The share of processed coffee exported by coffee-producing countries remained low. Opportunities to add value to raw coffee included moving from dry to wet processing, targeting specialty markets such as the market for single-origin coffee and exploring opportunities for the utilization of coffee by-products.

34. During the ensuing discussion, one delegate highlighted that imports in China, which accounted for large shares of the global markets of several commodities such as oil, iron ore, copper and soybeans, had supported commodity prices in recent periods. A few delegates emphasized the need for targeted policies to support value addition and diversification. Finally, several panellists highlighted the need to identify and address country-specific challenges for domestic value creation and diversification in commodity-dependent developing countries. Policies in this regard could include measures to improve productivity, competitiveness and the development of necessary skills.

D. Conclusion

35. In his concluding remarks, the Chair recommended that exchanges of experiences be initiated and stated that this could be a basis for pushing forward identified goals and processes already under way. In particular, there was a need to appropriately follow up on the main conclusions agreed by the participants, as well as for countries, regions, enterprises and individuals to share good practices and success stories, with regard to all aspects of the diversification of production and value chains.

II. Organizational matters

A. Election of officers

(Agenda item 1)

36. At its opening plenary, on 25 April 2018, the Multi-year Expert Meeting on Commodities and Development elected Mr. Eloi Laourou (Benin) as its Chair and Ms. Margret Kaemba (Zambia) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

37. Also at its opening plenary, the Multi-year Expert Meeting adopted the provisional agenda for the session (TD/B/C.I/MEM.2/40). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Recent developments, challenges and opportunities in commodity markets
4. Diversification and value addition
5. Adoption of the report of the meeting

C. Outcome of the session

38. Also at its opening plenary, the Multi-year Expert Meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report of the meeting

(Agenda item 5)

39. Also at its opening plenary, the Multi-year Expert Meeting agreed to authorize the Vice-Chair-cum-Rapporteur to finalize the report after the conclusion of the session.

Annex

Attendance*

1. Representatives of the following States members of UNCTAD attended the session:

Argentina	Morocco
Bahrain	Nepal
Benin	Niger
Brazil	Nigeria
Burkina Faso	Philippines
Canada	Saudi Arabia
China	Senegal
Comoros	Spain
Congo	Sri Lanka
Côte d'Ivoire	Sudan
Djibouti	Togo
Gabon	Trinidad and Tobago
Indonesia	Turkey
Iran (Islamic Republic of)	Turkmenistan
Jordan	Uganda
Kazakhstan	United Arab Emirates
Mauritius	Zambia
Mexico	Zimbabwe

2. Representatives of the following member of the Conference attended the session:

Holy See

3. Representatives of the following intergovernmental organizations attended the session:

African, Caribbean and Pacific Group of States
Common Fund for Commodities
International Coffee Organization
International Grains Council
Organization of Islamic Cooperation
South Centre

4. Representatives of the following United Nations organ, body or programme attended the session:

International Trade Centre

5. Representatives of the following specialized agency or related organization attended the session:

Food and Agriculture Organization of the United Nations

6. Representatives of the following non-governmental organizations attended the session:

General category

Engineers of the World
International Institute for Sustainable Development
International Network for Standardization of Higher Education Degrees

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* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.2/INF.10.